HCL

High Cost Lending Summit & Lobby Day 2019

VETERANS AND CONSUMERS FAIR CREDIT ACT (VCFCA)

H.R. 5050 AND S. 2833

The bipartisan Veterans and Consumers Fair Credit Act extends the Military Lending Act's 36% interest rate cap on consumer loans to all Americans, especially Veterans and Gold Star Families

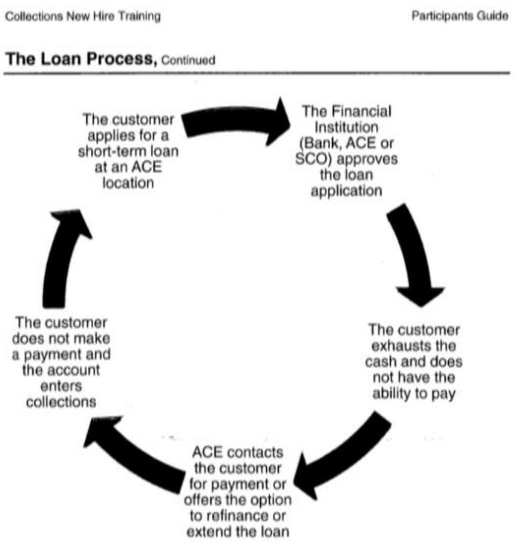

Image from a high cost lender training manual.

High-cost predatory loans trap families in cycles of debt. In many states, consumers can take out loans marketed as helping them meet immediate or emergency needs. Yet these loans carry astronomical triple-digit interest rates and the vast majority of borrowers are unable to afford repayment. Borrowers are forced to constantly renew their loans – stacking debt on top of debt – and leaving them worse off. For example, more than 80% of payday loans are reborrowed within two weeks.

Americans are suffering from high-cost, predatory loans. Payday loans and similar forms of credit force too many into spiraling debt that destabilizes families and compromises futures. Families saddled with these loans are unable to afford basic living expenses, are subject to vehicle repossessions, abusive debt collections, bank account closures, bankruptcy, and face harmful health effects including high blood pressure, anxiety, depression, and even suicide.

Veterans deserve better. While the Military Lending Act (MLA) currently caps interest rates on loans to active duty service members and their families, Veterans and Gold Star Families are not protected. These members of the military community are especially susceptible to the financial and mental health problems associated with predatory payday loans. Predatory lenders target Veterans and their families, using specialized marketing to appeal to members of the military. The protections that applied to Veterans when they were active duty no longer apply, leaving them particularly exposed to financial exploitation.

Predatory debt traps are un-American and limit consumer freedom. All thirteen original states had traditional usury limits capping interest rates. The founders of the Republic including Washington, Hamilton, Jefferson, and Franklin all believed interest rate caps protect human liberty because they prevent citizens from becoming ensnared in debt traps. Debt traps reduce freedom by entangling the public in cycles of repeat borrowing. Like speed limits and seat belt laws, a rate cap is a commonsense measure to prevent public harm. In the words of our first President, *"[t]here is no practice more dangerous than borrowing money… for when money can be had in this way, repayment is seldom thought of in time… It comes*

easy and is spent freely and many things indulged in that would never be thought of, if to be purchased by the sweat of the brow. In the meantime, the debt is accumulating like a snowball in rolling." --George Washington, Letter to his nephew on personal borrowing, 1797

Usury and faith. All major world religions oppose predatory lending. For example, over a dozen passages in the Bible condemn usurious lending.

Usury limits have overwhelming public support. Polling data and every ballot referendum held on the subject show that *super-majorities* of Republican, Democratic, and Independent voters alike support reestablishing traditional interest rate limits. For example, in 2016, 75% of South Dakotans voted to cap rates at 36%.

The ***Veterans and Consumers Fair Credit Act*** would eliminate high-cost, predatory payday loans, auto-title loans, and similar forms of toxic credit across America by:

- **Reestablishing a simple, common sense limit on predatory lending.** The bill would extend the Department of Defense's 36% interest rate cap to all Americans. This would simply reestablish usury laws that were in force in virtually every state throughout most of the twentieth century.

- **Preventing hidden fees and loopholes.** The 36% rate cap is based on the Pentagon's successful rules that include all additional fees or add-ons. A federal law is necessary to stop evasions and protect all Americans.

- **Preserving options to address budgetary shortfalls.** The Department of Defense's approach is time-tested and proven. Active duty service members are still able to make ends meet including through non-credit means, such as payment plans with utilities, and with credit from banks, credit unions, finance companies, fintech companies, and retailers.

- **Maintaining low industry compliance costs from compromise rules already in effect.** Compliance costs for industry will be low because creditors should *already* know how to comply for active duty military and their families.

- **Upholding stronger state protections**. States like Arkansas, South Dakota, North Carolina, Colorado, New Hampshire, New York, and Montana already have strong interest rate caps. Existing laws will not be impacted because the bill does not preempt any provision of State law that provides greater protections to consumers.

H.R. 5050 Sponsors & Cosponsors

- Rep. Jesus "Chuy" Garcia (D-IL-4)
- Rep. Glenn Grothman (R-WI-6)
- Rep. Sylvia Garcia (D-TX-29)
- Rep. Al Green (D-TX-9)

S. 2833 Sponsors & Cosponsors

- Sen. Sherrod Brown (D-OH)
- Sen. Jeff Merkley (D-OR)
- Sen. Jack Reed (D-RI)
- Sen Chris Van Hollen (D-MD)
- Sen. Richard Blumenthal (D-CT)
- Sen Catherine Cortez Masto (D-NV)